CURTIS THAXTER STEVENS BRODER & MICOLEAU LLC
ATTORNEYS AT LAW

ONE CANAL PLAZA, P.O. BOX 7320, PORTLAND, ME 04112-7320/TEL: 207-774-9000 FAX: 207-775-0612/www.curthax.com

Scott L. Sells, Esq.
sls@curthax.com

September 2, 2003

ELECTRONICALLY FILED ON SEPTEMBER 2, 2003
Dennis L. Keschl, Esq., Administrative Director
Maine Public Utilities Commission
State House Station 18
Augusta, ME 04333

Re: Maine Public Service Company, Request for Approval of Alternative Rate Plan
MPUC Docket No. 2003-085

THIS IS A VIRTUAL DUPLICATE OF THE ORIGINAL HARDCOPY SUBMITTED TO THE COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING INSTRUCTIONS

Dear Dennis:

As my partner, Kim Kenway, explained to you this morning, we inadvertently included a confidential exhibit in the Partial Stipulation filed in the above-captioned matter on August 28. We note that this filing has been removed from the Commission's web site. Thank you for your prompt action in that regard.

Enclosed for filing is the same Partial Stipulation filed on August 28 with the redacted version of Exhibit SC-1 substituted for the version originally included. The confidential version of this Exhibit will be filed via hardcopy.

We apologize for any confusion caused by this error.

Very truly yours,

Scott L. Sells, Esq.

cc: Service List, via electronic mail
O:\KLK\53551-Maine Public\ARP\Keschl Letters\Sep 2 Stip Trans.doc

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Scott L. Sells, Esq.
sls@curthax.com

August 28, 2003

<u>ELECTRONICALLY FILED ON AUGUST 28, 2003</u>
Dennis L. Keschl, Esq., Administrative Director
Maine Public Utilities Commission
State House Station 18
Augusta, ME 04333

Re: Maine Public Service Company, Request for Approval of Alternative Rate Plan
<u>MPUC Docket No. 2003-085</u>

THIS IS A VIRTUAL DUPLICATE OF THE ORIGINAL HARDCOPY SUBMITTED TO THE COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING INSTRUCTIONS

Dear Mr. Keschl:

Enclosed for filing please find a Partial Stipulation in the above-captioned Docket. The Public Advocate, McCain Foods, Inc., and J.M. Huber, Inc. have advised us that they will be submitting signed signature pages shortly. Counsel to Central Maine Power Company and the Industrial Energy Consumer Group have advised that they do not oppose the Partial Stipulation.

Stipulation Exhibit SC-1 contains confidential information. A redacted version is being filed herewith. We will file the confidential version of this Exhibit under separate cover (via regular mail) and subject to the Protective Order in this Docket.

We understand that this Partial Stipulation will be considered at the Commission's next regular deliberative session, to be held on Tuesday, September 2. Please advise us if this is incorrect.

Very truly yours,

Scott L. Sells, Esq.

cc: Service List, via electronic mail

STATE OF MAINE PUBLIC UTILITIES COMMISSION		Docket No. 2003-85
MAINE PUBLIC SERVICE COMPANY, Request for Approval of Alternative Rate Plan	))	PARTIAL STIPULATION
MAINE PUBLIC SERVICE COMPANY, Application for Approval of Issuance of Second Mortgage and Collateral Trust Bonds to Secure New Letter of Credit Issued Pursuant to Amendment No. 4 to the Letter of Credit and Reimbursement Agreement (Section 1101) ($14,400,000)	)))))))	Docket No. 2002-256 STIPULATION TO AMENDED ORDER
MAINE PUBLIC SERVICE COMPANY Application for Approval of Issue of Securities (Section 902) ($15,000,000) and for Approval of Second Mortgage (Section 1101) ($15,875,000)	))))	Docket No. 96-241 STIPULATION TO AMENDED ORDER
MAINE PUBLIC SERVICE COMPANY Application for Approval of Issue of Securities (Section 902) ($9,00,000) and for Approval of Mortgage (Section 1101) $9,525,000)	))))	Docket No. 2000-542 STIPULATION TO AMENDED ORDER
MAINE PUBLIC SERVICE COMPANY Applicaton for Approval of Issuance of Securities and Mortgage Bonds (Section 902, 1101) ($14,000,000)	))))	Docket No. 98-210 STIPULATION TO AMENDED ORDER

A. Introduction, Procedural History and Summary of Partial Stipulation. On March 6, 2003, Maine Public Service Company ("MPS," "the Company") filed an Alternative Rate Plan ("ARP") Proposal (the "MPS Proposal") requesting, *inter alia*, a $1.267 million increase in distribution revenues as a "starting point" for its proposed seven-year ARP. The ARP Proposal also contemplated annual rate adjustments based on inflation, an independent adjustment tracking changes in interest rates, an economic conditions factor, an allowance for extraordinary costs, pricing flexibility, an earnings sharing feature around a "deadband," and service quality indices with rewards and penalties tracking the Company's performance. The Office of the Public Advocate ("OPA"), J.M.Huber, Inc. ("Huber"), and McCain Foods, Inc. ("McCain") petitioned to intervene. Central Maine Power Company and the Industrial Energy Consumer Group also petitioned to intervene for the limited purpose of receiving copies of all filings in the Docket and potentially submitting briefs. All such petitions were granted.

The distribution rate increase request was based on general inflation plus specific treatment of certain extraordinary cost factors. During the course of the proceeding, however, the Maine Legislature amended 35-A MRSA Section 3195 to require the Commission to conduct a revenue requirement and earnings review prior to the commencement of an ARP. Consequently, on April 11, 2003 the Company made a cost of service filing in compliance with Chapter 120 of the Commission's Rules. The Chapter 120 filing, which was based on a 2002 test year with proforma adjustments for known and measurable changes, identified a distribution revenue increase of $1.713 million. The Company did not, however, change its initial rate increase request of $1.267 million. The Company's request was duly noticed, and the Commission held a public hearing on the rate request in Presque Isle, Maine on May 9, 2003.

The Examiner and the parties elected to pursue an informal, collaborative approach to processing this case. In addition, the OPA and the Bench conducted extensive discovery, and numerous technical conferences were held in the course of the collaborative, focusing primarily on the cost of service portion of the Company's case. Following the completion of discovery on the cost of service issues, the parties engaged in extensive settlement discussions, culminating in this Partial Stipulation. The Partial Stipulation, if adopted by the Commission, would bifurcate this case. Phase 1, which would be resolved upon acceptance of this Partial Stipulation and execution of the Hedge Program, as described below, would cover:

> MPS's distribution revenue increase request;

> A program, described below, to hedge the Company's interest rate risk;

> The unbundling of MPS's current bundled delivery rates into separate distribution and stranded cost components;

> Amortization of costs associated with this rate case and with the Company's Voluntary Early Retirement Plan ("VERP");

> Clarification of the methodology used to compute distribution service bills for McCain and Huber;

> The discontinuation of both the Special Discount Revenue Offset and the Stranded Cost Rate Reduction Accrual authorized in Docket 2001-240; and

> The recovery by MPS in 2004 of the 2004 increase in the conservation fund assessment.

Phase 2, which will be pursued at MPS's discretion as described below, will cover the details of the ARP.

B. Stipulation.

The parties hereby agree as follows:

1. Distribution Revenue Requirement and Related Issues.

a. Revenue Requirement. MPS shall be entitled to increase its rates on file with the Commission by an amount sufficient to produce an increase in its distribution revenues of not more than $940,000, of which $306,827 is associated with the cost of the Hedge Program described in Section B(2) below, for a total distribution revenue requirement of $16,068,714. These amounts shall be subject to adjustment when the cost of the Hedge Program has been established. The agreed-upon distribution revenue requirement is predicated upon a 2002 actual test year with various proforma adjustments and an allowed return on common equity of 10.25%. The parties hereto agree to use best efforts to cause the rate adjustment to take effect for service rendered on and after September 15, but not later than October 1, 2003. Attached hereto as Stipulation Exhibits 1 through 8 are schedules supporting and explaining the above-described result.

b. Rate Design. The parties recognize that the Company's distribution rates need to be unbundled into separate distribution and stranded cost components. The parties agree to the class revenue allocations set forth in Exhibit D and the average stranded cost and distribution rates set forth in Exhibits SC 1 and 2. As part of the compliance phase of Phase 1 of this Docket, MPS shall file "starting point" rates in accordance with these Exhibits. The rate increase agreed to shall be implemented by increasing rates "across the board," as said term has been used in prior rate proceedings before this Commission.

c. Stranded Cost Return on Equity. The parties further agree that in its upcoming stranded cost revenue requirement filing, expected to be made on or about September 1, 2003, MPS shall be allowed a rate of return on common equity of 10.25% based on a 51% equity ratio.

2. Interest Rate Hedge Program; Amendment of Prior Financing Orders.

a. Initial Proposal. The MPS Proposal explained that the interest rates on each of the components of the Company's long-term debt are variable. The Company proposed, as part of its ARP, an automatic interest rate adjustment that would allow for distribution rate adjustments to track changes (outside of a 50-point bandwidth) in interest rates during the term of the ARP. In the course of the collaborative, the parties agreed to an alternative approach whereby the Company would immediately implement a program to manage, or "hedge," its interest rate risk.

b. Description of Program. This program (the "Hedge Program") is described in the prefiled testimony of Kurt A. Tornquist and Larry E. LaPlante, the Company's Chief Financial Officer and Chief Accounting Officer respectively, which is attached hereto as Stipulation Exhibit 9. As this testimony explains, MPS is prepared to enter into "swaps" to fix the interest costs on all of its long-term debt through the maturity of each series of debt. In the Hedge Program, the Company will continue to pay its existing debt-holders based on its existing agreements with them, which shall continue in effect and unamended. The interest rates paid to these parties will therefore continue to vary over time with market conditions. In separate swap transactions, however, the Company will pay one or more counterparties the difference between the variable interest rate (the "Actual Rate") and the agreed-upon swap rate (the "Swap Rate") for so long as the Actual Rate is less than the Swap Rate for any given series of debt. At such time as the Actual Rate *exceeds* the Swap Rate for any series of debt, the counterparty pays MPS the difference. Thus, the net economic effect of keeping the existing arrangements with its debt-holders in place, while implementing the Hedge Program, is to allow MPS to fix the interest rates on its debt for the balance of the maturity of each series of debt.

c. Stipulation as to Reasonableness. The parties agree that the Hedge Program is a reasonable and prudent approach to managing the Company's interest rate risk, that the actual cost of the Program should be included in the rates to be filed pursuant to this Partial Stipulation, and (as discussed below) that the Commission should amend its prior orders authorizing these financings to permit the Company to execute its Hedge Program. The parties recognize, however, that since the prices of these instruments change on an hour-by-hour basis, the exact cost of the Program will not become known until after the Company has purchased the swaps that comprise the Program.

d. Adjustment of Revenue Requirement. Accordingly, the parties agree that upon the issuance of a Commission Order accepting this Partial Stipulation, the Company may implement the Hedge Program by purchasing the swaps. The Company shall then make a supplemental filing in this Docket documenting the actual interest rates achieved by the Hedge Program. Upon verification of such rates by the parties and the Commission, the provisional distribution revenue requirement amount, and therefore the provisional distribution rate increase amount, shall be adjusted by deducting the current "placeholder" test year proforma adjustment to the cost of long-term debt of $306,827 and substituting therefore the actual additional debt cost (above test year long-term debt costs) of the Program; provided that, irrespective of the actual cost of the Hedge Program, the total amount of the distribution revenue increase to be implemented at the conclusion of Phase 1 of this Docket shall not exceed $940,000. The Company shall file new rate sheets, developed in a manner consistent with this Partial Stipulation, reflecting the final revenue amount. In the event that actual costs exceed the allowed amount, the Company shall be allowed, in a future rate proceeding, the option to demonstrate that its Hedge Program was reasonable and prudent and that the full cost of the Program should be allowed in rates (on a going-forward basis).

e. Financing Approvals. As indicated above, the initial issuance of each series of the debt subject to the Hedge Program was authorized under Section 902 and, in some cases, Section 1101, by prior Commission Orders, all of which took into account the interest rates to be paid on such debt. *Maine Public Service Company, Application for Approval of Issuance of Second Mortgage and Collateral Trust Bonds to Secure New Letter of Credit Issued Pursuant to Amendment No. 4 to the Letter of Credit and Reimbursement Agreement (Section 1101)($14,400,000)*, Docket No. 2002-256, and *Maine Public Service Company, Application for Approval of Issue of Securities (Section 902) ($15,000,000) and for Approval of Second Mortgage (Section 1101) ($15,875,000)*, Docket No. 96-241, Order Approving Issue of Securities and Mortgage of Property (in both Dockets) issued June 4, 2002, *Maine Public Service Company, Application for Approval of Issue of Securities (Section 902) ($9,000,000) and for Approval of Mortgage (Section 1101) $9,525,000)* Docket No. 2000-542, Order Approving Issue of Securities and Mortgage of Property dated October 11, 2000, and *Maine Public Service Company, Application for Approval of Issue of Securities and Mortgage Bonds (Section 902, 1101) ($14,000,000)*, Docket No. 98-210, Order Approving Issue of Securities and Mortgage on Utility Property dated April 22, 1998 (collectively, the "Financing Orders"). The parties agree to recommend that the Commission amend its Financing Orders to confirm its approval of the Hedge Program (within the context of the Financing Orders Dockets) and the effective re-pricing of the Company's debt resulting from the implementation of the Program, so long as the total cost of the Hedge Program is less than the amount which, if included in the total allowed distribution revenue increase, would result in a total allowed distribution revenue increase of $1,050,000 .[1]

f. Contingency. In the event that the Company is unable to execute the Hedge Program for any reason, this Stipulation shall be null and void.

3. Unbundling of Stranded Costs Rates. In the compliance phase of this proceeding, MPS shall submit stranded cost rates based on the class-by-class revenue responsibility set forth on Stipulation Exhibit SC 1 (attached) and in Section 4. The parties agree that although the rates shall be adjusted in the event of future changes in the Company's stranded cost revenue requirement, the rate design shall be consistent with the above-mentioned Exhibit and Section 4. The foregoing shall not be construed to foreclose a properly-noticed rate design investigation by the Commission.

4. McCain and Huber Billing Issues. In *Maine Public Service Company, Special Rate Contract for McCain Foods, Inc.*, MPUC Docket No. 2000-441 (the *McCain Case*) and *Maine Public Service Company, Request for Approval of Special Rate Contract with J.M. Huber, Inc.*, MPUC Docket No. 2000-447, (the "*Huber Case*") (collectively the "*McCain and Huber Cases*"), the Commission entered Orders on August 4, 2000 approving special rate contracts for these MPS industrial customers. The contracts, *inter alia*, required these customers to pay for delivery service at MPS's filed rates; provided, however, that rather than paying the otherwise applicable stranded cost component of the rate, the customers would instead pay either a contractually-established fixed dollar amount, or in accordance with a discounted stranded cost rate, as stranded cost charges. Based on this commitment, for the past three years MPS has issued monthly bills to McCain and Huber based on

(a) the fixed stranded cost dollar amount (or stranded cost rate) per the contracts, plus

---

1 By way of illustration: Assume that the swap rates at the time the Company approaches the swaps market are significantly higher than the rates presented in the Tornquist/LaPlante testimony. Holding all other values in the revenue requirement stipulation presented in Section 1 hereof equal, if the proforma long-term debt cost adjustment using the actual cost of the Hedge Program at those rates would result in a *hypothetical* rate increase greater than $1,050,000, then the Company would not have the requisite approvals under Sections 902 and 1101 of Title 35-A to execute the Hedge Program. If the (hypothetical) rate increase would be less than $1,050,000, then the Company would have the requisite Section 902 and 1101 authority under this Stipulation.

(b) the FERC transmission charge (T), plus

(c) a distribution rate derived as the residual of the total published TDS wires charge less (T) above, less the presumed core customer stranded cost rates (S) developed in Docket Nos. 2000-441 and 2000-447 as shown in attached Stipulation Exhibit SC 2.[2]

In the course of the collaborative held in this Docket, this procedure for determining the bills to be rendered to McCain and Huber was examined and reaffirmed. Further, notwithstanding the stranded cost rates adopted pursuant to Section 3 above, the parties confirm that MPS shall continue to use the "contract" stranded cost rates included in the McCain and Huber contracts approved in the *McCain and Huber Cases.* In addition, the distribution rates applied to McCain and Huber prior to resolution of this Docket shall continue for the term of the McCain and Huber contracts as the base rates to which allowed distribution increases will be applied. The parties request that the Commission confirm that this procedure is correct.

5. Conservation Fund Assessment Deferral and Recovery. On April 4, 2003, the Commission issued its Order in *Maine Public Utilities Commission, Re: Procedures for Conservation Program Planning*, Docket No. 2002-162. Under this Order, MPS's annual conservation fund assessment will increase by approximately $100,000 per year beginning in 2003. The projected annual impact of this Order on MPS's expenses is as follows:

Year	Assessment
2002	$159,606
2003	$318,168
2004	$424,220
2005	$530,280
2006	$636,340
2007	$742,390
2008	$795,420

The parties agree that these assessments are, by design, beyond the control of MPS, are intended to further state policy favoring conservation, and that MPS should not, consistent with 35-A MRSA Section 3211-A(9), be at risk for the recovery of these amounts.

[2] Exhibit SC-2 shall be used to develop the unbundled Rate HT.

Accordingly, the parties recommend that the Commission include in its Order approving this Partial Stipulation an accounting order permitting MPS to record on its books as a regulatory asset, and defer for future recovery, the difference between the test year proforma conservation fund assessment amount of $318,168 and the actual amount assessed for the conservation fund (the "Assessment Increase"). The mechanism for recovery of these amounts shall be resolved in Phase 2 of this Docket (the ARP); provided that if the Docket is discontinued without a resolution of the Phase 2 issues, then (1) the Company shall be permitted to adjust its rates during the second half of 2004 to reflect the 2004 Assessment Increase,[3] and (2) the Company may make a separate application to the Commission to establish a permanent procedure for the recovery of Assessment Increases thereafter.

6. Discontinuation of Special Discount Revenue Offset Accruals and Liabilities (Docket 2001-240). In *Maine Public Service Company, Investigation of Maine Public Service Company's Stranded Cost Revenue Requirement,* MPUC Docket No. 2001-240, Order Approving Stipulation dated February 27, 2002, the Commission accepted a Stipulation requiring the Company to "record $135,000, annually, on it books of account as a regulatory liability until its next general T&D rate case." On March 11, 2003 in the same Docket, the Commission entered an Order Granting Request for Accounting Order allowing MPS to defer $57,708 per year as a regulatory liability stemming from an adjustment to its sales forecast for stranded costs purposes.

The stipulated distribution revenue requirement presented herein by the parties reflects a downward adjustment to the Company's revenue requirement to take into account the discontinuation of these accruals as well as the recovery of all regulatory liabilities accrued pursuant to these Orders. Accordingly, the parties recommend that the Commission include in its Order approving this Partial Stipulation an accounting order (1) directing MPS to discontinue the above-described accruals on its books of account on the Rate Effective Date (as defined below), and (2) confirming that all amounts accrued pursuant to the above-mentioned accounting orders as regulatory liabilities as of June 30, 2003 shall be amortized over a two-year period. The Company agrees to offset recovery of one-time transaction costs associated with the Hedge

[3] The Company anticipates that this adjustment would coincide with its annual retail rate adjustment to reflect changes in its FERC-approved Open Access Transmission Tariff, which normally occurs in September of each year.

Program referred to in Section 2 above in the amount of all accruals between July 1, 2003 and the Rate Effective Date. The Rate Effective Date shall be defined as the date on which rates implementing the distribution revenue increase contemplated in Section 1 hereof become effective.

It is the intent of the parties that in future rate proceedings a sharing of the special contract discount liability will continue and be subject to regulatory review with respect to quantification and prudence.

7. Accounting Orders for Cost Amortizations. The parties recommend that the Commission include in its Order approving this Partial Stipulation accounting orders directing the Company to amortize over a period of seven years: (1) the costs associated with its Voluntary Early Retirement Program ("VERP"), as shown on Stipulation Exhibit 7, and (2) the costs incurred in connection with this Docket through the date of the Commission's Order approving the rates implementing the distribution revenue increase recommended in Section 1 hereof.

For ratemaking purposes, both the amount and the amortization period of the VERP and rate case costs are specifically addressed and finally disposed of within the revenue requirement stipulation presented to the Commission in Section B(1) hereof, and no alternative rate treatment thereof shall be considered for these specific costs in this or any future case.

8. Phase 2. Should the Commission accept this Partial Stipulation, and if the Company thereafter executes the Hedge Program, all issues in Phase 1 of this Docket (such issues consisting of those explicitly addressed in this Partial Stipulation) shall be deemed to have been resolved. The Company has indicated that it may or may not proceed with the balance of the MPS Proposal.

MPS shall notify the Commission and the parties in writing by no later than December 31, 2003 whether it wishes to proceed with Phase 2. If MPS does elect to proceed, then the Examiner shall consult with the parties and establish a schedule for processing Phase 2. If it elects not to proceed, then this Docket shall be closed.

9. **Standard Stipulation Provisions.**

A. Purpose; Rejection of Portion Constitutes Rejection of Whole. The parties are entering into this Partial Stipulation for the purpose of finally disposing of all issues raised in Phase 1 of this Docket. If the Commission does not accept the entire Partial Stipulation without material modification, then this Partial Stipulation shall be null and void, and will not bind the parties in this proceeding.

B. No Precedent. The making of this Partial Stipulation by the parties shall not constitute precedent as to any matter of fact or law, nor, except as expressly provided otherwise herein, shall it foreclose any party from making any contention or exercising any right, including the right of appeal, in any other Commission proceeding or investigation, or in any other trial or action.

C. Examiner's Report. The parties agree to waive the provisions of § 752 (b) of the Commission's Rules of Practice and Procedure, requiring that any Examiner's Report be in writing and that the parties be afforded an opportunity to file exceptions or comments thereon. The parties thereby intend to permit the Advisors either to provide an oral Examiner's Report to the Commission at the deliberative session to be held in this Docket, or, if the Advisors so wish, to provide a written Examiner's Report to the Commission with the parties waiving the right to file exceptions or comments thereto.

IN WITNESS WHEREOF, the parties have caused this Partial Stipulation to be executed and delivered, or have caused their lack of objection to be noted, by their respective attorneys.

MAINE PUBLIC SERVICE COMPANY

Dated: 8/28/03

By: [signature]

MCCAIN FOODS, INC.

Dated:___________ By:__________________________

J.M. HUBER, INC.

Dated:___________ By:__________________________

OFFICE OF THE PUBLIC ADVOCATE

Dated:___________ By:__________________________

Stipulation
Exhibit 1
Summary

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
DOCKET 2003-85

Stipulated Distribution Revenue Requirement

	Without Interest Lock	With Interest Lock
Net Expenses (1)	12,567,615	12,567,615
Rate Base	29,870,211	29,870,211
Cost of Capital	10.69%	11.72%
Return on Rate Base	3,194,272	3,501,099
Total Test Year Revenue Rqulrement	**15,761,887**	**16,068,714**
Less: Weather Normalization	(36,801)	(36,801)
Less: Current Electric Revenue	(15,091,913)	(15,091,913)
Increase Required	**$633,173**	**$940,000**

(1) Revenue Offset Included on Net Expenses		
Forfeited Discounts	81,286	81,286
Misc Service Revenues	171,305	171,305
Rent from Electric Property	195,315	195,315
Other Electric Revenues	0	0
Unbilled Revenues	0	0
Special Discount Revenue Offset	122,118	122,118
Total	570,024	570,024

Stipulation
Exhibit 2
Cost of Capital

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
DOCKET 2003-85
Stipulated Cost of Capital

Without Interest Rate Hedge Program

	Proportion	Cost	WACC	Pre-Tax WACC
Common Equity	51.00%	10.25%	5.23%	8.70% (1)
Short-Term Debt	7.60%	4.16%	0.32%	0.32%
Long-Term Debt	41.40%	4.06% (2)	1.68%	1.68%
Total	100.00%		7.22%	10.69%

Note (1):

Federal Tax Rate of:	34.0000%	
State Tax Rate of:	8.9300%	
Weighted Tax Rate of:	39.8938%	
	1 / (1 - 0.398938) =	1.66370

Note (2): Excludes Interest Rate "Hedge" Program

With Interest Rate Hedge Program

	Proportion	Cost	WACC	Pre-Tax WACC
Common Equity	51.00%	10.25%	5.23%	8.70%
Short-Term Debt	7.60%	4.16%	0.32%	0.32%
Long-Term Debt	41.40%	6.54% (3)	2.71%	2.71%
Total	100.00%		8.25%	11.72%

Note (1):

Federal Tax Rate of:	34.0000%	
State Tax Rate of:	8.9300%	
Weighted Tax Rate of:	39.8938%	
	1 / (1 - 0.398938) =	1.66370

Note (3): Per Stipulation, the 6.54% value is a "place holder"' and is subject to adjustment based on the actual cost to MPS of its Hedge Program, which cost shall be determined following the execution of the Program.

Stipulation
Exhibit 3
Test Year Revenue

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
DOCKET 2003-85
Adjusted Test Year 2002 Revenue

	Total	Distribution (1)	Transmission (2)	Stranded (3)
Rate Revenues	29,692,050	15,261,096	2,793,667	11,637,287
McCain Adjustment	(131,320)	(131,320)	0	0
Huber Adjustment	(58,617)	(58,617)	0	0
Actual Total Test-Year Rate Revenues per MPS Books	29,502,113	15,071,159	2,793,667	11,637,287
and Imputed T, D, S Rate Revenues				
Reconciliation Adjustment	(11,672)	(11,672)	0	0
Revenue Proforma Adjustments	32,426	32,426	0	0
Stipulated Rate Revenues	29,522,867	15,091,913	2,793,667	11,637,287
Plus: Transmission Increase of 10/1/02	390,355	0	390,355	0
Expected Rate Revenues	29,913,222	15,091,913	3,184,022	11,637,287

Notes:
(1) Calculated in accordance with this Stipulation.
(2) Calculated in accordance with currently approved FERC OATT.
(3) Calculated in accordance with MPUC Docket 2001-240 and this Stipulation.

Stipulation
Exhibit 4
Rate Base

Maine Public Service Company
Stipulated Distribution Ratebase
13-month Average ending December 31, 2002

Net Utility Plant:	
Electric Plant in Service	64,444,706
Less: Accum Prov for Depre & Amort	(29,824,677)
Customer Advances for Const	(124,821)
Balance, Net Utility Plant	34,495,208
Plus: Proforma for AMR	994,000
Invest in Sub and Associated Co's:	
Investment in MEPCO	494,655
Working Capital Requirement	827,528
Rate Base Adjustments:	
Non-Investor Supplied Capital	
Customer Deposits	(29,920)
Pension Accrual-SFAS 87	(1,791,721)
Other Post Employ Benefits-SFAS 106	(76,943)
Deferred Director's Compensation	(90,961)
Accum. Deferred Income Taxed-Dep Prop	(4,572,311)
- Seabrook	0
- Other	(379,324)
Balance-Total Adjusted Rate Base	29,870,211

Stipulation
Exhibit 5
Expenses

Maine Public Service Company
Stipulated Distribution Net Expense

Transmission Operations Expense	0
Transmission Maintenance Expense	0
Distribution Operations Expense	751,631
Distribution Maintenance Expense	1,217,675
Customer Account Expenses	1,290,237
Administration & General Exp-Oper.	6,262,001
Administration & General Exp-Maint.	300,300
Depreciation - Transmission Plant	0
Depreciation - Distribution Plant	1,766,614
Depreciation - General Plant	381,832
Amortization - Stranded Costs	0
Amortization - Other	177,436
Taxes Other than Income	1,095,296
Investment Tax Credit Adjustment	(19,869)
Total Operating Expenses	13,223,153
Offsets to Total Operating Expenses:	
Equity in Earnings of MEPCO	85,514
Equity in Earnings of M.Y.	0
MPS Revenue Offset	570,024
Revenue Requirement-Net Expense	**12,567,615**

Stipulation
Exhibit 6
Conservation

Maine Public Service Company
Conservation Funding

To reflect an increase in conservation fund expenses from 0.541% of electric retail revenues ($29,502,113) to 0.6 mills/kWh multiplied by total retail sales (530,279,363) pursuant to the Order in MPUC Docket No. 2002-162 dated April 4, 2003.

Current MPS conservation fund assessment	159,606
Ordered MPS conservation fund assessment	318,168
Increase to Operating Expense	158,561

		Ordered Level		
		% on Total Delivery Rates	mils/kWh	$000's
2001	Actual	0.53%	0.30	157.26
2002	Actual	0.54%	0.30	159.61
2003	Budget	1.08%	0.60	318.17
2004	Forecast	1.44%	0.80	424.22
2005	" "	1.80%	1.00	530.28
2006	" "	2.16%	1.20	636.34
2007	" "	2.52%	1.40	742.39
2008	Forecast	2.70%	1.50	795.42

Stipulation
Exhibit 7
VERP

MAINE PUBLIC SERVICE COMPANY
Amortization of Voluntary Early Retirement Program (VERP)
Test Year December 31, 2002

To reflect amortization of 2002 VERP costs over seven years.

Total cost of VERP:	
FAS 88 (Pension) one time cost:	231,124
FAS 106 (Retiree Medical) one time cost:	170,747
Total increase to operating expense:	401,871
7-year amortization:	$57,410

Stipulation
Exhibit 8
Prior Orders

MAINE PUBLIC SERVICE COMPANY
Special Discount Revenue Offset
Test Year December 31, 2002

To adjust test year for an increase in Special Discount Revenue Offset revenues due to prior Orders in MPUC Docket No. 2001-240.

Order dated February 27, 2002	
Amount through 12/31/02	$112,500
Amount 1/1/03 through 6/30/03	67,500
Order dated March 11, 2003	
Amount 3/1/03 through 6/30/03	19,236
Total	199,236
2-Year Amortization	$99,618
Reversal of Special Discounts in the Test Year as of February 28, 2003:	**135,000**
Total increase in revenue:	**$234,618**

Stipulation Exhibit 9

STATE OF MAINE **PUBLIC UTILITIES COMMISSION**		**Docket No. 2003-85**
MAINE PUBLIC SERVICE COMPANY, **Request for Approval of Alternative Rate Plan**	))	
MAINE PUBLIC SERVICE COMPANY, **Application for Approval of Issuance of Second** **Mortgage and Collateral Trust Bonds to Secure** **New Letter of Credit Issued Pursuant to** **Amendment No. 4 to the Letter of Credit and** **Reimbursement Agreement (Section 1101)** **($14,400,000)**	)))))))	**Docket No. 2002-256**
MAINE PUBLIC SERVICE COMPANY **Application for Approval of Issue of Securities** **(Section 902) ($15,000,000) and for Approval of** **Second Mortgage (Section 1101) ($15,875,000)**	))))	**Docket No. 96-241**
MAINE PUBLIC SERVICE COMPANY **Application for Approval of Issue of Securities** **(Section 902) ($9,00,000) and for Approval of** **Mortgage (Section 1101) $9,525,000)**	))))	**Docket No. 2000-542**
MAINE PUBLIC SERVICE COMPANY **Applicaton for Approval of Issuance of** **Securities and Mortgage Bonds (Section 902,** **1101) ($14,000,000)**	))))	**Docket No. 98-210**

Prefiled Direct Testimony of Kurt A. Tornquist and Larry E. LaPlante Regarding the MPS Hedge Program August 27, 2003

Q1. Please state your names, affiliations, titles and business address.

A1. My name is Kurt Tornquist. I am Senior Vice President, Chief Financial Officer and Treasurer for Maine Public Service Company ("MPS" or "Company"). My name is Larry E. LaPlante. I am Vice President, Controller and Chief Accounting Officer. Our business address is 209 State Street, Presque Isle, Maine.

Q2. Mr. Tornquist, please provide a summary of your education and experience.

A2. After ten years in public accounting and with manufacturing firms, I joined Maine Public Service Company in 1992 as Assistant Controller. From 1994 until September 1, 2002, I served as Controller, responsible for financial reporting, income taxes, property taxes, and all accounting matters. From September 1 2002 until June 1, 2003, I was Vice President, Corporate Performance and Development. I have attended several utility tax and management seminars, including the three-week Stone & Webster Utility Management Program. I am a March 2003 graduate of the Wharton Advanced Management Program. In 1984 I was admitted to practice as a Certified Public Accountant in the State of Maine and earned the Certified Managerial Accountant designation. I continue to hold both licenses and am a member of the American Institute of Certified Public Accountants and the Institute of Management Accountants.

Q3. Mr. Tornquist, have you previously testified before this Commission?

A3. Yes. I have submitted testimony on test year revenue requirements, operating income and rate base in the Company's last rate case, Docket No. 95-052. I also submitted testimony on the Company's application to form a holding company in Docket No. 2002-676.

Q4. Mr. LaPlante, please provide a summary of your education and experience.

A4. After almost ten years of working for public accounting firms, I joined Maine Public Service Company in 1983 as Controller. At Maine Public Service Company, I am responsible for financial reporting, accounting, and tax. I have attended numerous seminars on utility financial, accounting, and income tax matters, including the three-week Stone & Webster Utility Management Program and the Public Utilities Financial Seminar sponsored by The Bank of New York. A Certified Public Accountant since 1976, I continue to maintain by license and am a member of the American Institute of Certified Public Accountants and the Maine Society of Certified Public Accountants.

Q5. Mr. LaPlante, have you previously testified before this Commission?

A5. Yes. I submitted testimony on test year revenue requirements, test year operating income and test year rate base in the Company's last three rate increase cases, Docket Nos. 90-281, 92-101, and 95-052. I submitted testimony on the proposed sale of the Company's generating assets, Docket No. 98-584. In Docket No. 98-577, I submitted testimony on the Company's capital structure and stranded costs. I presented testimony on stranded costs in Docket No. 2001-240. I also submitted testimony on the Company's application to form a holding company in Docket No. 2002-676. Over the last nine years, I have also submitted testimony supporting the Company's requests to issue long-term debt and other financial matters.

Q6. What is the purpose of your testimony?

A6. We are testifying with regard to MPS's interest rate management proposal.

Q7. Please describe the Company's long-term debt structure.

A7. The Company has three issues of long-term variable rate debt totaling $31.3 million as of July 31, 2003 as follows:

1. Tax-exempt 1996 Series MPUFB Public Utility Revenue Bonds due 2021, variable interest rate of 1.5% during 2002, with an "all in rate" including amortization of issuance costs of 3.21%	$13.6
2. Tax-exempt 2000 Series MPUFB Public Utility Revenue Bonds due 2025, variable interest rate of 1.5% during 2002, with an "all in rate" of 4.11%	9.0
3. FAME 1998 Taxable Electric Rate Stabilization Revenue Notes, due 2008, but will be paid off in 2007, variable interest rate of 1.89% during 2002, with an "all in rate" of 2.9% (a sinking fund payment of $625,000 was made June 1, 2003)	8.7
Total	$31.3

Q8. Have you considered taking advantage of the low-interest-rate environment by locking in all or a portion of your variable rate debt?

A8. Yes, we believe it in the best interest of our customers and shareholders to take advantage of the current low interest rates.

Q9. Have you ever protected the Company's risk to interest rate volatility?

A9. Yes, we currently utilize rate caps, with a 7% cap on our FAME note through maturity, and a 6% cap on both Tax-Exempt issues, which expires in November 2003. These caps were purchased in a much higher interest rate environment.

Q10. Please describe your proposed strategy.

A10. The Company's long-term debt interest management strategy is to synthetically lock in the interest rates of all of the Company's long-term debt – the 1996 and 2000 Series Tax-Exempt issues through their maturities of 2021 and 2025, respectively, as well as the FAME debt. The FAME debt is scheduled to mature in 2008, but will be taken out in mid-2007 with the capital reserve fund required by FAME at issuance in 1998.

Q11. How did the Company arrive at the specific debt interest management strategy that you have described?

A11. We consulted with Dr. Robert Strong, a Professor of Finance at the University of Maine. Dr. Strong provided prefiled cost of capital testimony in Docket 2003-85 which was included in our Chapter 120 filing in that Docket. His prefiled testimony discusses the interest rate management issue. We worked with Dr. Strong to identify various approaches to the interest rate management issue such as caps, collars and swaps. We also interviewed various providers of these instruments so as to be fully informed on the features of these products. We ultimately determined that swaps offered attractively priced protection that did not require upfront payments.

Q12. What is your understanding of the mechanics of a swap?

A12. A swap is an instrument separate from the debt it is protecting. We would continue to pay the variable rates to the debt holder institutions as we do now. However, we would effectively pay the fixed rate monthly by either making a payment to or receiving a payment from the provider of the swap, depending on whether the variable rate was below or above the fixed swap rate.

Q13. Did you consider any other alternatives to your proposed strategy?

A13. Yes, as reflected on Attachment 1 of this testimony, we considered two scenarios:

1. Lock rates on all debt for 7 years with swaps
2. Lock rates on all debt to maturity with swaps

Q14. Does the existing variable debt have provisions for fixing the rates?

Q14. Yes, but the conversion requires what amounts to a retirement of the existing debt and an issuance of fixed rate notes. This alternative was considered briefly, but was quickly discarded due to the considerable legal costs required upon conversion. In addition, the indicative swap rates gathered at the time of this consideration were below the fixed conversion rates.

Q15. Please describe Attachment 1.

A15. The purpose of Attachment 1 is to isolate the impact on the Company's distribution revenue requirement of entering into interest rate locks for the two scenarios. Using the outstanding balance of the debt as of July 31, 2003, we compared interest costs of swaps to the average interest costs for 2002 for each issue. In past analysis in Docket 2003-85, the Commission Staff has used the 2002 rates as a benchmark and we used them to derive our cost of long-term debt submitted in our Chapter 120 filing in that Docket. These rates are compared to indicative rates obtained as of August 12, 2003 from a potential provider of synthetic interest rate locks. We then multiplied the total impact on interest costs by 40%, the approximate share of distribution customers of the Company's revenues. The balance of the total interest will be recovered in future Stranded Cost and Open Access Transmission Tariff filings.

Q16. Why are you advocating Scenario 2 as the best course of action?

A16. Normally, a debt portfolio with a mixture of fixed and variable rates would provide an acceptable balance of interest rate risk protection and the ability to take advantage of decreases in rates. In addition, locking rates for periods in excess of 7 to 10 years may not be advisable because of the possibility of future rate declines. Presently, however, we find ourselves in the unique position to be able to lock in rates while they are at 40-year lows. The benefits of locking into such low rates and removing interest rate uncertainty through our debt's maturity clearly outweigh the advantages of normal interest rate management strategy. Scenario 1 parallels an analysis performed by the Staff using indicative rates obtained earlier this year.

Q17. The $225,000 annual increase in distribution revenue requirements for the 7 year swaps differs from the $171,000 calculated by the Staff. Why is that?

A17. In the time interval that has elapsed since the Staff performed their analysis, the rates available in the swaps market have increased.

Q18. The swaps rates you quote in Attachment 1 were the indicative rates as of August 12. Assuming the Company was to execute this program at the end of the month, what range of rates do you believe might be available?

A18. As I mentioned earlier, these rates fluctuate hourly and have been trending upward lately. I believe we might expect by way of a range of interest rates in the two scenarios a fluctuation of up to +/- 25 basis points.

Q19. Are you concerned about the timing of implementing your strategy?

A19. Yes, longer term interest rate swaps have begun a general increase and are showing some day-to-day volatility. While we realize that the indicative rates we have gathered are just that, and that they are good only at the instant they are quoted, we believe it is in the best interest of all parties to implement our strategy as soon as possible.

Q20. Does this conclude your testimony?

A20. Yes.

Maine Public Service Company
Analysis of Interest Swap Scenarios

Attachment 1

($000's) Issue	Outstanding Balance @ 7/31/03	Average Rate in 2002	(1) Indicative Swap Rate	Total Annual Increased Interest Expense	Annual Impact on Distribution Requirements 40% of Total (3)
1. 100% Lock - 7 year swaps for Tax-Exempts and swap to maturity of FAME					
Tax-exempt 1996 - variable due 2021	13,600	1.50	3.75	306	122
Tax-exempt 2000 - variable due 2025	9,000	1.50	3.75	203	81
FAME 1998 - variable due 2008 (2)	8,740	1.89	3.21	115	46
Total	31,340			624	250
2. 100% Lock - to term for Tax-Exempts and FAME					
Tax-exempt 1996 - variable due 2021	13,600	1.50	4.64	427	171
Tax-exempt 2000 - variable due 2025	9,000	1.50	4.74	292	117
FAME 1998 - variable due 2008 (2)	8,740	1.89	3.21	115	46
Total	31,340			834	334

(1) Quoted from potential instrument provider as of 8/19/03, with 15 bps added for BMA Index coverage.
(2) Company intends to pay off in 2007 using existing capital reserve fund required at issuance.
(3) Approximate share of distribution revenue to total, considering stranded costs and transmission, is 40%.

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Stipulation
Exhibit D-1

Maine Public Service Company
Allocation of Distribution Costs to Rate Classes
Docket No. 2003 - 85

	TY2002			
Class	Annual kWh	Total per FR - $	Total Dist. $	Total Dist. %
A	159,504,140	$12,018,285	7,537,913	50.05%
AH/AN	9,984,398	653,917	368,092	2.44%
C	72,440,873	5,184,770	3,020,450	20.06%
F	11,667,394	802,043	453,438	3.01%
D	2,530,992	103,973	38,871	0.26%
ES & MC-M	92,622,296	4,592,308	1,701,031	11.30%
EP	11,218,060	574,035	198,462	1.32%
EST	4,339,843	190,306	70,328	0.47%
EPT	18,353,500	776,764	249,379	1.66%
ST	44,962,000	2,035,487	507,169	3.37%
HT - Core	8,330,400	464,154	30,896	0.21%
[redacted]				
SL-T	3,344,987	774,229	693,520	4.61%
Test Year Total	530,267,283	$29,502,113	15,059,487	100.00%

Proforma Adjustments:

[redacted]

Test Year Distribution Revenue per Stipulation Exhibit 3: 15,091,913

REDACTED

REDACTED

Stipulation
Exhibit SC-1

Maine Public Service Company
Allocation of Stranded Costs to Rate Classes
Docket No. 2003 - 85

	TY2002			
Class	Annual kWh	Total per FR - $	Total SC $	Total SC %
A	159,504,140	$12,018,285	3,794,839	32.61%
AH/AN	9,984,398	653,917	237,544	2.04%
C	72,440,873	5,184,770	1,787,013	15.36%
F	11,667,394	802,043	287,818	2.47%
D	2,530,992	103,973	65,102	0.56%
ES & MC-M	92,622,296	4,592,308	2,298,460	19.75%
EP	11,218,060	574,035	278,385	2.39%
EST	4,339,843	190,306	100,463	0.86%
EPT	18,353,500	776,764	437,520	3.76%
ST	44,962,000	2,035,487	1,178,112	10.12%
HT - Core	8,330,400	464,154	304,643	2.62%
[redacted]				
SL-T	3,344,987	774,229	67,362	0.58%
Test Year Total	530,267,283	$29,502,113	11,637,287	100.00%

REDACTED

Stipulation
Exhibit SC-2

Maine Public Service Company

Rate HT (Includes McCain and Huber Transmission and Distribution Rates) by Components

Rate Class	Rates March 1, 2000 thru September 30, 2002				10/01/2002 Rates			
	dkt 98-577	dkt 02-479 dkt 99-185	dkt 02-479	dkt 98-577 dkt 99-185	dkt 02-479 dkt 99-185	dkt 02-479	dkt 98-577 dkt 99-185	dkt 02-479
	TY2000	TY2000	TY2000	TY2000	TY2001	TY2000	TY2000	current
	TDS Wires Rate $/unit	Transmission $/unit	Distribution $/unit	Stranded Cost $/unit	Transmission $/unit	Distribution $/unit	Stranded Cost $/unit	TDS Wires Rate $/unit
Transmission Service (H-T)								
Customer Charge ($/Mo)	505.38	0.00	45.21	460.17	0.00	45.21	460.17	505.38
Winter Peak Energy ($/kWh)	0.033288	0.00	0.002978	0.030310	0.00	0.002978	0.030310	0.033288
Winter Off-Peak Energy ($/kWh)	0.018714	0.00	0.001674	0.017040	0.00	0.001674	0.017040	0.018714
Summer Peak Energy ($/kWh)	0.013115	0.00	0.001173	0.011942	0.00	0.001173	0.011942	0.013115
Summer Off-Peak Energy ($/kWh)	0.007373	0.00	0.000660	0.006713	0.00	0.000660	0.006713	0.007373
Winter Peak Demand ($/kW)	8.11	2.16	0.53	5.42	2.57	0.53	5.42	8.52
Winter Off-Peak Demand ($/kW)	4.05	2.16	0.00	1.89	2.57	0.00	1.89	4.46
Summer Peak Demand ($/kW)	5.40	2.16	0.29	2.95	2.57	0.29	2.95	5.81
Summer Off-Peak Demand ($/kW)	2.71	2.16	0.00	0.55	2.57	0.00	0.55	3.12

REDACTED

Stipulation
Exhibit D-1

Maine Public Service Company
Allocation of Distribution Costs to Rate Classes
Docket No. 2003 - 85

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Proforma Adjustments:

[redacted]

Test Year Distribution Revenue per Stipulation Exhibit 3: 15,091,913

REDACTED